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DEPARTMENT FOR AF/S AND EEB/CBA - DENNIS WINSTEAD
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SUBJECT: ZAMBIA MARCH 2008 ECONOMIC ROUNDUP

REF: LUSAKA 302

1. SUMMARY

- Inflation Rises Again in March
- Labor Trouble At Chinese-Owned Copper Smelter
- Government Suspends duty on Energy-Saving Devices
- Maamba Coal Mine Seeks Investor
- Indian Firm To Invest in Coal-Powered Energy
- Zambia May Face Fuel Shortage If Financing Is Not Secured
- Lusaka City Plans for Sustainable Expansion

Inflation Rises Again in March

1.2. According to the Central Statistical Office's Consumer Price Index, Zambia's year-on-year inflation rate for March rose to 9.8 percent, up from 9.5 percent in February. Bank of Zambia officials attribute the upward movement to increases in the cost of clothing, furniture and household goods, medical care, education, transport, and other goods and services. Rental property and household energy prices registered a slight decline.

Labor Trouble at Chinese-Owned Copper Smelter

1.3. A work stoppage by Zambian workers at the Chinese-owned Chambishi Copper Smelter turned violent on March 4 when groups of workers burned a tractor and damaged other property to the tune of USD 200,000. The workers had not reported for work on Monday, March 3, in protest of what they said were low wages and poor working conditions. National Union of Mining and Allied Workers (NUMAW) officials were negotiating the workers' return to work when the violence erupted. Chambishi Copper Smelter (CCS) management dismissed the plant's 500 workers on March 5, but then gave workers three days to "exculpate" themselves by proving that they were not part of the protest. Seven NUMAW officials were arrested late on March 4 on charges of malicious damage and riotous behavior; the seven were subsequently released on bail. As of March 12, 400 of the five hundred dismissed workers were back on the job. According to Albert Mando, Secretary General of NUMAW, negotiations with CCS management regarding salary and working conditions continue.

Government Suspends Duty on Energy-Saving Devices

1.4. In a March 17 public address, President Levy Mwanawasa announced that the government would suspend duty and value-added tax on energy-saving devices to reduce demand for power in light of continued load-shedding. The President expressed his hope that retail outlets pass on these benefits on to their customers. In his remarks, Mwanawasa attributed the power shortages in Zambia and SADC region to unprecedented recent economic growth, including the opening of several new mines in Zambia. Finance Minister Ng'andu Magande issued statutory instruments on March 20, 2008 to suspend

the duties and taxes on items such as energy efficient bulbs, batteries, solar equipment and electricity generators.

Maamba Coal Mine Seeks Investor

15. Zambia Consolidated Copper Mines-Investment Holdings (ZCCM-IH) is seeking partners to develop its Maamba Collieries, a major coal supplier to the copper mines. ZCCM-IH, which plans to inject USD 12 million into Maamba Collieries, aims to identify a permanent equity partner, to pursue opportunities for developing a coal-fired power plant at the Maamba coal mine site. Thirty foreign and local companies reportedly expressed interest in the tender, which closed on March 28. ZCCM-IH Chief Executive Officer Joseph Chikolwa said ZCCM-IH had not yet decided upon the stake that it would make available to potential investors. Maamba Collieries Limited produced about 600,000 tons of coal per year during the 1980s, before production fell due to undercapitalization and operational losses. The GRZ's first effort at privatizing the coal mine failed. The coal mine has 78 million tons of known coal reserves, which are projected to last 70 years, and it has capacity to produce one million tons per year.

Indian Firm to Invest in Coal-Powered Energy

16. In early March, Commerce, Trade and Industry Minister Felix Mutati signed a Memorandum of Understanding with India's Era Engineering Innovations (EII) to invest USD five million in coal-powered energy generation in Zambia. EII Director Ajay Mishra said his company will send a delegation to Zambia in the first week of April to start the project assessment.

17. Minister Mutati said that Southern African Development Community (SADC) countries have a power deficit of 1,600 MW and need to

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develop hydro-power and coal-powered thermal generation plants. He also noted that Zambia's vast coal resources could be transformed into electricity.

Zambia May Face Fuel Shortage If Financing Is Not Secured

18. Following its failure to secure a deal with Stanbic Bank, the GRZ continues to seek a financier for the procurement of crude oil (Reftel). The 90,000 tons of oil delivered in January was financed through a Letter of Credit valued at USD 75 million, issued by the PTA Bank of Kenya. The Post newspaper of March 25, 2008 reported that another consignment is due in the first week of April and the Government has not yet secured payment for the consignment. In comments to the media on March 19, Energy Minister Kenneth Konga assured citizens that Zambia will not experience fuel shortages.

19. The Zambia National Tender Board (ZNTB) received two bids in November 2007 from Stanbic Bank and Finance Bank to provide funding worth USD 1.2 billion for a two-year supply of 1.4 metric tons of commingled petroleum feedstock to be delivered by Independent Petroleum Group of Kuwait. The ZNTB authorized the Ministry of Energy to negotiate with Stanbic in January 2008 but to date the negotiations have not been concluded. Local media reports that Stanbic is still consulting with its headquarters in South Africa.

Lusaka City Plans for Sustainable Expansion

110. The Japanese International Cooperation Agency (JICA) together with the Ministry of Local Government and Housing and the Lusaka City Council have instituted a study entitled the Lusaka Sustainable Economic and Environmental Development (LUSEED). The study aims to formulate a comprehensive urban development master-plan that will cost USD 400 million to implement. The LUSEED study team leader Isamu Isakura said once the study is completed, it would be financed by the GRZ, JICA, and the private sector. The urban development master plan will include sub-programs for urban transportation, water supply and sewerage and living environment for Greater Lusaka Urban Area. The study will also address how to carry out technology transfer to Zambian counterpart personnel and will formalize the comprehensive Urban Development Master Plan as the official

development plan for Lusaka.

¶11. Lusaka has become a large city due to migration from rural areas and steady economic growth. The Lusaka City municipality is 424 square kilometers and government plans to extend it to 864 square kilometers. The population of Lusaka was estimated in 2005 at 1.8 million people, making up 350,000 households. Due to rapid industrial and population growth, the city has been facing several problems, such as air pollution, disorderly transportation system, water shortage, water pollution, flooding, and toxic and hazardous waste disposal. None of these problems have been addressed affectively by city planning in the past. The national and local governments hope to ensure that all future activity complies with the Master Plan for the city's development.

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